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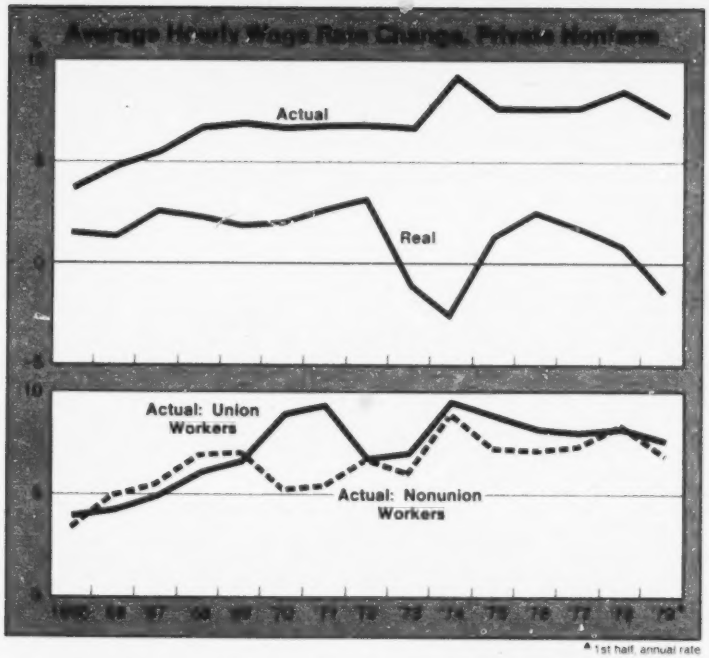
THE CONFERENCE BOARD

Trends in Wages

Economic Road Maps
No. 1865 October, 1979

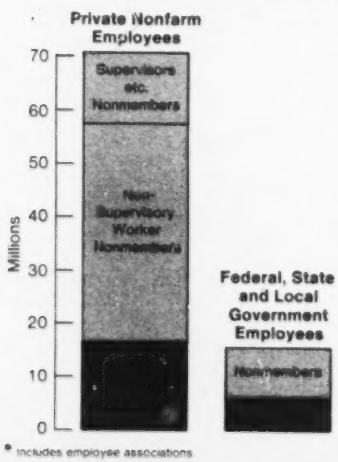
The government's wage guidelines have been in effect for a year. The first-year intent was to hold the average increase in compensation to 7 percent. The average increase in the wage rate change of private rank-and-file workers in the first half of 1979 was not much above 7% at an annual rate. For all private workers, the average rise in hourly compensation—wages, salaries, fringes—was just over 9% at an annual rate. Both increases were slower than the respective 1978 advances. The headlines have reported some costly union settlements this year, but such settlements are not the rule and involve a relatively small share of the work force. However, it does appear that union wages have slowed less this year than nonunion wages.



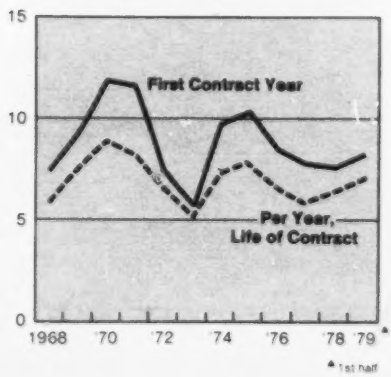
The chart at left shows percent changes in the average wage rate of private, nonfarm rank-and-file workers. In money terms, the rise has been a fairly steady 7½-8% annually in recent years. In real terms, of course, the picture is different and includes an appreciable decline this year. For major union contracts, covering altogether about 10 million workers, the Bureau of Labor Statistics calculates the average actual wage rate change every quarter, taking account of increases under new contracts, deferred increases under existing contracts, and cost-of-living escalators. This change amounted to 8.2% in 1978 and 7.5% (annual rate) in the first half of 1979. The nonunion wage trend on the chart has been imputed from these data, plus the overall private wage change.

Nonunion wage gains are typically slower than union gains when the economy is weak

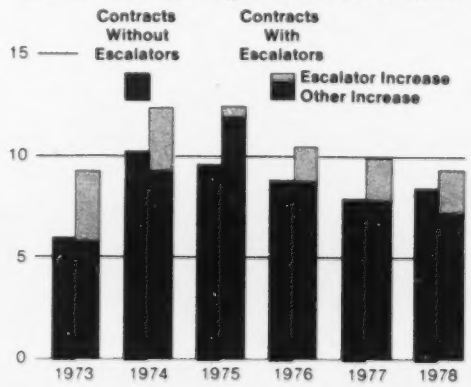
Union Membership, 1978



Major Union Settlements: Negotiated Percent Change in Wage Rates, Excluding Possible Living-Cost Escalators

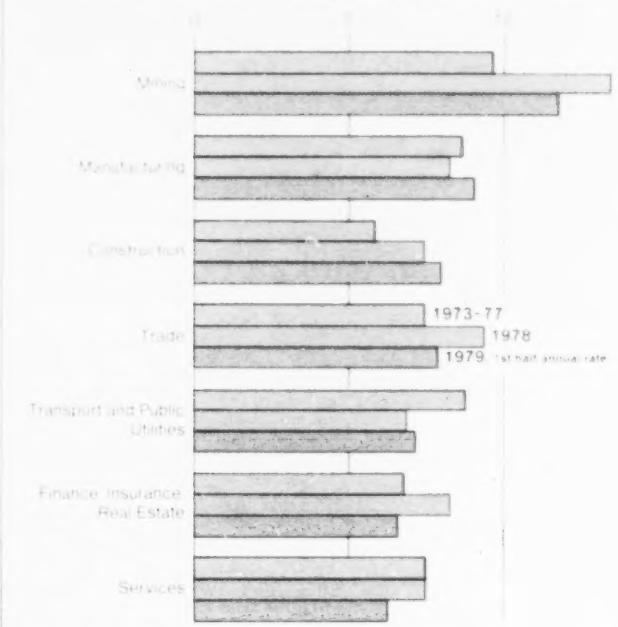


The Role of Living-Cost Escalators: Actual Percent Change in Wage Rates in First Year of Major Union Contracts



Average Hourly Wage Rates in Major Industries

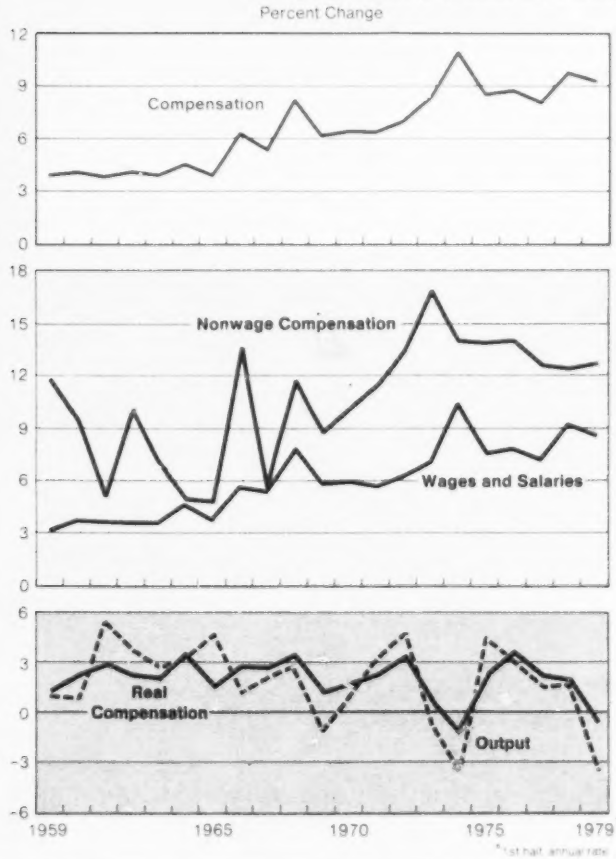
Percent Change, Annual Rate

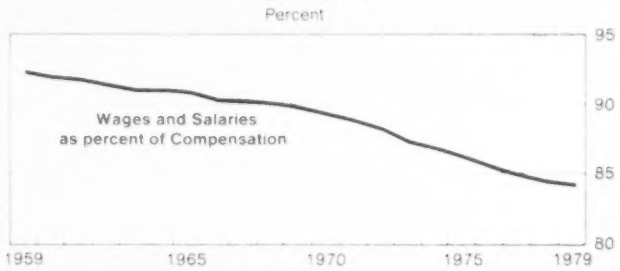


but roughly equal when activity is strong. In early 1979, employment conditions were still very strong but nonunion wage gains slowed more than union gains, suggesting that the guidelines affected nonunion workers more than union members. The union workers' main advantage in 1979 has probably been the living-cost escalator. About 6 million workers in major union contracts have escalators, but they are otherwise rare. As the chart on page 1 shows, escalators are important for those who have them. In the first year of contracts with escalators signed in 1978, wage rates rose 9.2% on average, with the negotiated wage change accounting for 7.1% and the escalators for 2.1 percent.

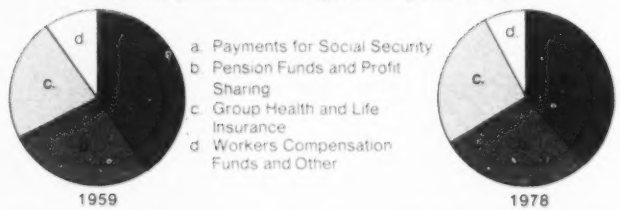
Total compensation is more than just wages and salaries. Some 15% of the total consists of employer payments for health and life insurance, pension funds, and so on, plus employers' Social Security taxes. The nonwage share has been rising steadily, but the makeup of nonwage compensation has been remarkably stable over time (chart below). That is, while Social Security taxes have risen rapidly, other nonwage compensation

Compensation per hour and Output per hour, Private Nonfarm Sector





Makeup of Non-Wage Compensation


a. Payments for Social Security
b. Pension Funds and Profit Sharing
c. Group Health and Life Insurance
d. Workers Compensation Funds and Other
1959
1978

has gone up just as fast. It is often said that real income is weak because "inflation erodes income." But a more fundamental relationship, shown in the lower left chart, is that real hourly income is weak because of weakness in real hourly output. In this light, inflation equilibrates: It eats up enough of money income to make the growth of real income about match that of real output.

Lora S. Collins

Sources: U.S. Departments of Commerce and Labor; The Conference Board.

ECONOMIC ROAD MAPS

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